

NATIONAL DAIRY MARKET AT A GLANCE

CHICAGO MERCANTILE EXCHANGE (CME) CASH MARKETS (7/21)
BUTTER: Grade AA closed at \$1.1525. The weekly average for Grade AA is \$1.1475 (+.0005).

CHEESE: Barrels closed at \$1.1150 and blocks at \$1.1600. The weekly average for barrels is \$1.1160 (-.0140) and blocks, \$1.1600 (N.C.).

BUTTER: The cash butter market is generally steady. Most butter producers state cream supplies have tightened. Some producers continue to seek additional volumes, while a few are willing to sell a portion of their cream supply to Class II operations. Stocks of butter continue to run well ahead of last year levels. CME weekly warehouse stocks grew by 790,000 pounds last week to stand at 157.6 million pounds compared to 94.5 million pounds for the same week last year. In the last 10 weeks, stocks have grown by 18.3 million pounds compared to an increase of only .5 million pounds for the same period last year. Butter demand is seasonally steady at fair levels. Some scattered retail feature activity is being reported in various markets across the country. Food service orders are steady.

CHEESE: The cheese market is unsettled to weak. Current interest is steady to lighter. Good seasonal interest is noted in colby/jack and pepper jack, with natural cheddar often just fair. Better returns from sales of other varieties have reduced cheddar production in traditional areas. Mozzarella orders have held up fairly well for summer. Widespread heat reduced milk receipts and also lowered the fat and protein levels in incoming milk supplies. Both factors result in lower cheese production. However, supplies already in the pipeline are more than adequate for the short term. Some interest is noted in aged cheddar.

FLUID MILK: The recent widespread heat wave reduced milk receipts through much of the country. Also, fat and protein tests are lower in heat stressed areas, resulting in the reduced production of various manufactured dairy products. The reopening of the first schools in the Southeast has bottlers in the region gearing up and supplemental fluid imports into Florida continued for a second week. Otherwise, Class I interest remains at light summer levels.

DRY PRODUCTS: The NDM market is steady to firm as production is steady to lighter. Supplies have tightened despite a small volume cleared to CCC from the West. Interest in NDM use from cheese makers is increasing. Export interest is fair. Drying schedules are steady to lighter. The buttermilk market is firm with prices sharply higher. Reduced churning and depleted dry inventories have buyers searching for additional volumes. Whey prices are unchanged to higher. Production is steady to lighter with spot offerings limited as supply and demand are in close balance. The WPC market is also steady to firm. Increased exports of 80% have reduced the volume competing with 34% offers. Supplies are more in balance. Lactose remains firm though prices are steady. Supplies remain tight and buyers are unable to build inventory. Edible demand is strong with some users shorted on contracted loads. Production is steady.

CCC: During the week of July 17 - 21, CCC purchased 138,802 pounds of Western NDM under the price support program.

FEDERAL MILK ORDER ADVANCE PRICES HIGHLIGHTS (DAIRY PROGRAMS): Under the Federal milk order pricing system, the base price for Class I milk for August 2006 is \$10.97, down 37 cents from July. This price is derived from the advanced Class III skim milk pricing factor of \$6.96 and the advanced butterfat pricing factor of \$1.2154 per pound. Class I differentials specific to each county are added to the base price to determine the Class I price. The Class II skim milk price for August is \$6.82 and the Class II nonfat solids price is \$0.7578 per pound. The following are the two-week product price averages: butter \$1.1278, nonfat dry milk \$0.8268, cheese \$1.1858, and dry whey \$0.2796.

JUNE MILK PRODUCTION (NASS): Milk production in the 23 major states during June totaled 14.0 billion pounds, up 1.9% from June 2005. May revised production, at 14.7 billion pounds, was up 2.7% from May 2005. The May revision represented a decrease of 14 million pounds or 0.1% from last month's preliminary production estimate. Production per cow in the 23 States averaged 1,695 pounds for June, 5 pounds (0.3%) above June 2005. The number of milk cows on farms in the 23 States was 8.27 million head, 128,000 head (1.6%) more than June 2005, and 9,000 head more than May 2006. Milk production in the U.S. during the April-June quarter totaled 46.9 billion pounds, up 2.3% from the April-June quarter last year. The average number of milk cows in the U.S. during the quarter was 9.13 million head, 93,000 head (1.0%) more than the same period last year.

DAIRY OUTLOOK (ERS): Year-to-date disappearance for most dairy products is ahead of that for 2005. However, climbing production is resulting in higher stock levels and much lower prices. Lower milk and dairy product prices will remain until production slackens to meet demand. Slower growth in production is not expected until late 2006. While the monthly culling rate in 2006 has generally lagged 2004 and 2005, the rate inched ahead in May, suggesting that lower prices may be affecting production decisions. Cumulative production of major manufactured dairy products through May is ahead of year-earlier levels: all cheese 2.8%, butter 13.1%, nonfat dry milk (NDM) 16.1%, and dry whey 7.3%. With the exception of fat-reduced milk products, cumulative sales through May of fluid products is even or lags 2005 sales levels. The projected average price for Class III milk is \$11.40 - \$11.70, up slightly from June's projection. However, the Class IV price is expected to average \$10.45 - \$10.85, down from June's estimate. The all milk price for 2006 is expected to average \$12.50 - \$12.80.

FEDERAL MILK ORDER PRICE AND POOL SUMMARY (DAIRY PROGRAMS): During June, about 10.0 billion pounds of milk were received from producers. This volume of milk is 5.2% higher than the June 2005 volume. About 3.6 billion pounds of producer milk were used in Class I products, 4.5% higher than the previous year. Calendar composition likely had a positive impact on milk used in Class I in 2006 as compared to 2005. The all-market average Class utilization were: Class I = 36%, Class II = 13%, Class III = 39%, and Class IV = 12%. The weighted average statistical uniform price was \$12.08, \$0.11 higher than last month and \$2.61 lower than last year.

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**CHICAGO MERCANTILE EXCHANGE
CASH TRADING**

PRODUCT	MONDAY JULY 17	TUESDAY JULY 18	WEDNESDAY JULY 19	THURSDAY JULY 20	FRIDAY JULY 21	WEEKLY CHANGE*	WEEKLY AVERAGE#
CHEESE							
BARRELS	\$1.1175 (-.0025)	\$1.1175 (N.C.)	\$1.1150 (-.0025)	\$1.1150 (N.C.)	\$1.1150 (N.C.)	(-.0050)	\$1.1160 (-.0140)
40# BLOCKS	\$1.1600 (N.C.)	\$1.1600 (N.C.)	\$1.1600 (N.C.)	\$1.1600 (N.C.)	\$1.1600 (N.C.)	(N.C.)	\$1.1600 (N.C.)
BUTTER							
GRADE AA	\$1.1450 (N.C.)	\$1.1450 (N.C.)	\$1.1450 (N.C.)	\$1.1500 (+.0050)	\$1.1525 (+.0025)	(+.0075)	\$1.1475 (+.0005)

CHEESE: carload = 40,000-44,000 lbs., BUTTER: carlot = 40,000-43,000 lbs. *Sum of daily changes. # Weekly averages are simple averages of the daily closing prices for the calendar week. Computed by Dairy Market News for informational purposes. This data is available on the Internet at WWW.AMS.USDA.GOV/MARKETNEWS.HTM NOTE: CME NDM on Page 2.

CHICAGO MERCANTILE EXCHANGE

MONDAY, JULY 17, 2006

CHEESE — SALES: 2 CARS BARRELS: 1 @ \$1.1200, 1 @ \$1.1175; BIDS UNFILLED: 1 CAR BARRELS @ \$1.1150; 1 CAR 40# BLOCKS @ \$1.1600; OFFERS UNCOVERED: NONE

BUTTER — SALES: NONE; BIDS UNFILLED: 2 CARS GRADE AA @ \$1.1400; OFFERS UNCOVERED: 1 CAR GRADE AA @ \$1.1500

TUESDAY, JULY 18, 2006

CHEESE — SALES: 2 CARS BARRELS: 1 @ \$1.1150, 1 @ \$1.1125; 4 CARS 40# BLOCKS @ \$1.1600; BIDS UNFILLED: 4 CARS BARRELS: 1 @ \$1.1175, 1 @ \$1.1100, 2 @ \$1.1000; OFFERS UNCOVERED: NONE

BUTTER — SALES: 2 CARS GRADE AA @ \$1.1450; BIDS UNFILLED: 4 CARS GRADE AA: 2 @ \$1.1400, 1 @ \$1.1300, 1 @ \$1.1250; OFFERS UNCOVERED: 1 CAR GRADE

WEDNESDAY, JULY 19, 2006

CHEESE — SALES: 4 CARS BARRELS: 2 @ \$1.1175, 2 @ \$1.1150; BIDS UNFILLED: 2 CARS BARRELS @ \$1.1125; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.1200

BUTTER — SALES: 4 CARS GRADE AA @ \$1.1450; BIDS UNFILLED: 3 CARS GRADE AA: 2 @ \$1.1450, 1 @ \$1.1400; OFFERS UNCOVERED: 2 CARS GRADE AA @ \$1.1500

THURSDAY, JULY 20, 2006

CHEESE — SALES: 6 CARS 40# BLOCKS: 3 @ \$1.1600, 1 @ \$1.1575, 2 @ \$1.1600; BIDS UNFILLED: 2 CARS BARRELS: 1 @ \$1.1100, 1 @ \$1.1075; OFFERS UNCOVERED: 1 CAR 40# BLOCKS @ \$1.1625

BUTTER — SALES: 2 CARS GRADE AA @ \$1.1500; BIDS UNFILLED: 6 CARS GRADE AA: 1 @ \$1.1475, 5 @ \$1.1450; OFFERS UNCOVERED: 4 CARS GRADE AA @ \$1.1500

FRIDAY, JULY 21, 2006

CHEESE — SALES: 2 CARS BARRELS: 1 @ \$1.1175, 1 @ \$1.1150; 1 CAR 40# BLOCKS @ \$1.1600; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.1200

BUTTER — SALES: 11 CARS GRADE AA: 2 @ \$1.1550, 4 @ \$1.1525, 2 @ \$1.1500, 1 @ \$1.1525, 1 @ \$1.1500, 1 @ \$1.1525; BIDS UNFILLED: 9 CARS GRADE AA: 4 @ \$1.1500, 3 @ \$1.1475, 2 @ \$1.1450; OFFERS UNCOVERED: NONE

CME CASH NONFAT DRY MILK: Extra Grade closed the week at \$0.8700 and Grade A at \$0.8700. (The last price change for Extra Grade and Grade A was on June 27, 2006.) The weekly average for Extra Grade is \$0.8700 (N.C.) and Grade A is \$0.8700 (N.C.).

BUTTER MARKETS

NORTHEAST

The butter market remains weak as the cash price has basically held steady at current levels. Butter production is seasonally active although edging lower as cream supplies are more competitive. Some cream suppliers are surprised at the increased volume of available cream this week. Some speculate that higher fuel costs and high temperatures are two factors slowing Class II demand. Usually warmer temperatures spur ice cream sales, although coupled with higher fuel costs, consumers appear to not be as quick to venture out for that ice cream break. Churning is somewhat lighter this week in the Northeast as one operation is down for the week. This was a management decision versus an unexpected down period. Butter stocks continue to run heavier than last year. Demand is seasonally fair. Retail orders are typical for this time of the summer, occasionally higher when featured. Food service orders are steady. Some food service buyers indicate that they are not seeing the summer travel traffic to be as heavy as in other years. Again they are attributing this possible slow down to increasing fuel costs.

CENTRAL

The butter market is steady with the CME cash price closing at \$1.1450 for five consecutive days. This has been the longest stretch of unchanged prices since early May. Butter producers and handlers state that cream supplies are lower as Class II demand remains strong and butterfat levels in the milk are lower. Churning activity is seasonally declining, but still active enough to generate sufficient fresh butter for most needs. Many butter producers state that fresh production is keeping pace with demand while others are able to inventory some of this output for future use. Most producers are comfortable with declining cream volumes, but take advantage of surplus cream offerings, especially if favorably priced. At this time, some producers continue to sell a portion of their cream supply due to a better return versus churning. Some butter producers and handlers continue

to pull frozen bulk butter out of the freezer for tempering and repackaging for future use. Overall butter demand is seasonally steady. Retail orders are fair, slightly higher if features are scheduled. Food service orders are steady. Bulk butter for spot sale is being reported in the flat – 2 cents per pound over various pricing basis.

WEST

Cash butter prices at the CME market have been at or below \$1.15 for the last 8 trading sessions. The market closed at midweek at \$1.1450. There doesn't seem to be much of a push one way or the other to the market. Production is edging lower seasonally, but there continues to be sufficient stocks to cover any needs. Feature activity on butter at the retail level is sporadic, but some believe that with these generally low prices available for a long period of time that feature activity may still pick up late this summer to move good volumes of product. Food service orders from resort and vacation areas are coming in on schedule. There is a concern that the hot weather and increasing gas prices could put a damper on some of the vacation trade by the end of the year. Cream being offered to the churn has backed off as the summer rolls along. This is to be expected. Pricing is firming slowly and some churns are out searching for additional loads of cream. Year to date exports of butter as of last week total 12.9 million pounds as part of the ongoing CWT program. Exports of anhydrous milkfat total 2.6 million pounds. CME weekly warehouse stocks grew by 790,000 pounds last week to stand at 157.6 million pounds compared to 94.5 million pounds for the same week last year. In the last 10 weeks, stocks have grown by 18.3 million pounds compared to an increase of only .5 million pounds for the same period last year. Prices for bulk butter range from 2 cents under to 5 cents under based on the CME with various time frames and averages.

NASS DAIRY PRODUCT PRICES

U.S. AVERAGES AND TOTAL POUNDS

WEEK ENDING	CHEESE		NDM	BUTTER	DRY WHEY
	40# BLOCKS	38% MOISTURE BARRELS			
JULY 15	1.1623	1.1670	0.8305	1.1267	0.2809
	8,787,350	11,075,090	23,984,987	2,590,692	11,756,111

Further data and revisions may be found on the internet at: <http://jan.mannlib.cornell.edu/reports/nassr/price/dairy>

CHEESE MARKETS

NORTHEAST

Wholesale prices are lower on both natural and process items. Recent price weakness has many buyers working down inventory to make purchases when prices hit the bottom. Current cheese offerings are at least adequate for the generally moderate at best interest. Recent high temperatures stimulated food service account sales in many summer vacation areas. Current cheese production is mostly lower as the heat caused declines in milk production and lowered yields.

WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Cheddar 10# Prints	:	1.2450-1.7650
Cheddar Single Daisies	:	1.2025-1.6875
Cheddar 40# Block	:	1.3000-1.5750
Process 5# Loaf	:	1.3400-1.5850
Process 5# Sliced	:	1.3600-1.6700
Muenster	:	1.3175-1.5175
Grade A Swiss Cuts 10 - 14#	:	2.4500-2.6500

MIDWEST

The cheese market is unsettled, with a weak undertone for the near term. Current cheese demand is generally steady at best. The cheese market continues to struggle with milk and cheese production above year ago levels. Promotions continue to stimulate sales, though often at lighter levels than on earlier ones. Current natural American interest remains fairly good for colby/jack and pepper jack and lighter for locally produced cheddar blocks. Mozzarella interest is fairly steady at moderate to good summer levels and seems to be keeping inventories from really accumulating. Some producers are also seeing good provolone orders. Barrels remain tight for area producers. Process interest is steady at best with some operations supplementing commercial business with contract loads for CCC. Cheese production is showing more of the cumulative impact the recent bout of heat and humidity around midweek with milk solids content perhaps impacted sooner. Some plants continue to operate on full schedules while others are able to reduce a day or two from their make schedule.

WISCONSIN WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Process American 5# Loaf	:	1.4000-1.5775
Brick And/Or Muenster 5#	:	1.6500-1.7175
Cheddar 40# Block	:	1.5200-2.2650
Monterey Jack 10#	:	1.6500-2.2650
Blue 5#	:	2.0225-2.3300
Mozzarella 5 - 6# (Low Moisture, Part Skim)	:	1.3475-2.3650
Grade A Swiss Cuts 6 - 9#	:	2.1550-2.8300

WEEKLY COLD STORAGE HOLDINGS-SELECTED STORAGE CENTERS
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS

	BUTTER	:	CHEESE
		:	
07/17/06	55,337	:	136,796
07/01/06	52,817	:	139,697
CHANGE	2,520	:	-2,901
% CHANGE	5	:	-2

WEST

Cash prices for block cheese at the CME have held at \$1.16 for 9 trading sessions. This price is within 3 cents of the government support price. There does not seem to be much direction to the market at this time. Both sides are content to have the market remain steady at this level for the time being. Cheese production is slowing at a faster rate now that heat is covering most of the country. Some market participants speculate that this reduction in supply may lead to some price increases later this summer. They see cheese demand as being good, overall, and that the market may be poised to tighten up. Others don't think there is much of a chance that this will happen and predict more of the same. Undergrade offerings of cheese continue to clear the market reasonably well at reasonable discounts. Swiss sales have slowed a bit seasonally, but overall, they are in very good shape. Mozzarella stocks remain on the long side and this is causing some concern for suppliers. Year to date exports of cheese under the CWT program total 8.4 million pounds, as of last week.

WHOLESALE SELLING PRICES: DELIVERED, DOLLARS PER POUND
(1000 - 5000 POUNDS MIXED LOTS)

Process 5# Loaf	:	1.2825-1.5400
Cheddar 40# Block	:	1.2775-1.6300
Cheddar 10# Cuts	:	1.4575-1.6775
Monterey Jack 10#	:	1.4675-1.6275
Grade A Swiss Cuts 6 - 9#	:	2.3500-2.7000

FOREIGN

Imported prices are unchanged and domestic prices fractionally lower. Comments received indicate the likely prospect of higher prices on new arrivals due to the weaker U.S. dollar and higher energy/transportation costs involved in bringing products in. Current demand remains at the usually lighter summer levels. Supplies are adequate.

WHOLESALE SELLING PRICES: FOB DISTRIBUTORS DOCK
DOLLARS PER POUND (1000 - 5000 POUNDS, MIXED LOTS)

VARIETY	NEW YORK	
	IMPORTED	DOMESTIC
	:	:
Roquefort	: TFEWR	: -0-
Blue	: 2.6400-4.3500	: 1.5650-3.0525*
Gorgonzola	: 3.6900-5.9400	: 2.0675-2.4900*
Parmesan (Italy)	: TFEWR	: 2.9725-3.0775*
Romano (Italy)	: 2.1000-3.1900	: -0-
Provolone (Italy)	: 3.4400-6.0900	: 1.5575-1.7950*
Romano (Cows Milk)	: -0-	: 2.7550-4.8975*
Sardo Romano (Argentina)	: 2.8500-3.2900	: -0-
Reggianito (Argentina)	: 2.6900-3.2900	: -0-
Jarlsberg-(Brand)	: 3.1200-4.1500	: -0-
Swiss Cuts Switzerland	: -0-	: 2.4500-2.6500
Swiss Cuts Finnish	: 2.5900-2.8500	: -0-
Swiss Cuts Austrian	: TFEWR	: -0-
Edam	:	:
2 Pound	: TFEWR	: -0-
4 Pound	: TFEWR	: -0-
Gouda, Large	: TFEWR	: -0-
Gouda, Baby (\$/Dozen)	:	:
10 Ounce	: 27.8000-31.7000	: -0-

* = Price change.

FLUID MILK AND CREAM

E A S T

Spot shipments of Grade A milk into or out of Florida and other Southeastern states

	THIS WEEK		LAST WEEK		LAST YEAR	
	IN	OUT	IN	OUT	IN	OUT
FLORIDA	16	0	14	0	0	0
SOUTHEAST STATES	0	0	0	0	0	17

Hot temperatures and high humidity levels are taking a toll on milk production throughout the Northeast and Southeast. Milk handlers state that receipts are declining noticeably day by day. Milk producers anticipate that milk volumes will continue to edge lower as long as hot and humid weather patterns continue. Producers state that nights are not cooling off enough to provide relief to the herd, thus cows are under continual stress with little or no relief. Some producers question if the milk herd will be able to rebound production wise from this period or will milk volumes continue to edge lower seasonally. Milk production figures for June were released earlier this week. For the 23 surveyed states, June milk production was 1.9% higher than June 2005. The following are the June to June changes for selected states: FL -7.6%, KY -6.8%, NY -0.7%, PA 0.1%, VT -2.7%, and VA is steady. Although milk volumes have continued to run ahead of last for the first six months of this year, producers and handlers are speculating on July figures. Class I sales are not overly aggressive at this time, typical for the middle of the month. Some school bottling pipelines, especially in more southern areas of the region, are being readied for the start of school bottling season. Some schools will be resuming classes as early as the last week of this month with additional openings occurring each week during August and early September. Milk handlers state that this known additional demand is coming at a time when milk volumes are trending lower, but accelerated by adverse weather conditions. The condensed skim market is holding steady at basically unchanged prices. Sales are steady to up slightly as ice cream production is in full swing. Cream markets are mixed. Some cream handlers state that volumes are more available than orders can clear while others state that supplies are tighter. Pricing multiples remain firm, but have eased slightly. The hot/humid weather conditions are also having an impact on butterfat levels in the incoming milk. Cows are often drinking more to maintain some stage of coolness, thus butterfat levels are lower. Cream continues to clear to the churn, but is declining.

FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, \$ PER LB BUTTERFAT

F.O.B. PRODUCING PLANTS: NORTHEAST	-	1.5140-1.6058
DELIVERED EQUIVALENT: ATLANTA	-	1.5484-1.6632 M 1.5714-1.6287
F.O.B. PRODUCING PLANTS: UPPER MIDWEST	-	1.4567-1.5714

PRICES OF CONDENSED SKIM, DOLLARS PER LB. SOLIDS,

F.O.B. PRODUCING PLANTS:

Northeast - Class II - includes monthly formula prices	-	.9000-.9700
NORTHEAST - CLASS III - SPOT PRICES	-	.8900-.9500

M I D W E S T

Class I demand remains at light summer levels with the usual scattered retail features. Milk volumes remain seasonally heavy though recent high temperatures and humidity reduced milk volumes by early in the week though the milk solids content seemed to slip sooner. Milk intakes are generally lower, though it really took a few days before a reduction was noticed at plants during the recent hot spell. The declines were much more pronounced in Kansas, Nebraska, and further south where the elevated temperatures have occurred for a longer period, along with drought conditions. A handler reported "stair stepping" a few loads from the upper Midwest to cover some loads shipped from further south. Handlers are shipping a few extra loads to direct ship customers to replace reduced volumes on loads received from farms. Milk interest from cheese manufacturers is spotty with current offerings light. Reported spot manufacturing milk prices, on a very light test, range from \$0.75 to \$1.25 over class, net seller. Most plants continue to operate on heavier schedules than usual for July. The fat test decline is affecting cream availability. Cream demand remains seasonally strong as ice cream users try to keep up with ice cream and mix demand from current production and inventory. Initial estimated June milk production in selected Midwestern states compared with June 2005 is: Wisconsin, 1.983 billion pounds, up 19 million pounds (1.0%); Minnesota, 698 million pounds, minus 3 million pounds (-0.4%);

Michigan, 589 million pounds, up 15 million pounds, (2.6%); Texas, 606 million pounds, an increase of 56 million pounds (10.2%); Iowa, 337 million pounds, up 4 million pounds (1.2%); and Indiana, 277 million pounds, 9 million pounds higher (3.4%). In this group, only Minnesota reported fewer dairy cows than a year ago.

WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

	JULY 13 - 19	PREVIOUS YEAR
SLAUGHTER COWS	\$ 45.00- 51.00	\$ 50.00- 59.50
REPLACEMENT HEIFER CALVES	\$300.00-650.00	\$450.00-700.00

SOUTH ST. PAUL TERMINAL AUCTION MARKET (PER CWT.)

	JULY 13 - 19	PREVIOUS YEAR
SLAUGHTER COWS	\$ 46.00- 53.00	\$ 50.00- 60.00

W E S T

June *Milk Production* in the 23 surveyed states is 14.0 billion pounds, up 1.9% from last year. This is the smallest monthly increase from a year earlier since January 2005. Cow numbers increased 9,000 head from May. Production per cow was up only 0.3% from a year earlier. Output for selected Western states compared to last year is as follows: Arizona +7.0%, California +0.6%, Colorado +9.0%, Idaho +7.7%, New Mexico +12.9%, Oregon -3.6%, and Washington -1.9%. Cow numbers increased in all the above states that reported milk production growth. Production per cow in these Western states was ranged from unchanged to higher except for California which actually declined in production per cow by 1.1%. CALIFORNIA milk production is variable but the trend has been lower. The hot weather in the southern producing areas is impacting cows, but the plant intakes are not as severely impacted as expected. Load weights are also holding tight. The Central Valley is also suffering through several weeks of daytime highs over 100 degrees. The conditions have caused milk production to be lower and in cases, sharply lower. Some processors are seeing dramatic declines in milk intakes. Others are not seeing as steep of a loss. There are reports of higher than normal cow losses due to the heat stress. Plant schedules are often being extended because other plants are taking down times for maintenance. Fluid milk orders are steady at lighter summertime levels. Hot weather across ARIZONA is contributing to milk loss. The stress level has built up as heat and humidity move up. Temperatures are above normal daytime highs and are not cooling at nights. Plants are running on lighter schedules with less milk available. Incoming milk has also been shedding fat and protein as a result of the heat. Total milk is steady to only slightly higher than year ago levels. Bottled milk orders are about steady with recent weeks. CREAM prices are higher. There is a better call for cream from ice cream producers in the region. Demand has been light to fair for other higher class utilization. Overages in California have moved higher and gaining added premiums. Cream continues to move to churns, but overall butter production is declining. The CME Grade AA butter moved a half cent lower from last week to close at \$1.1450 at midweek. Cream multiples are higher at 110 to 131, FOB, and vary depending on class usage and basing points. Milk production in the PACIFIC NORTHWEST is holding steady to declining slowly. The heat stress that the rest of the country is facing is not quite as bad in this part of the country. Fat and protein tests are declining seasonally. Some contacts are indicating that producers are offering more heifers for sale to try and bolster their cash flow. This is meeting with limited success because demand for heifers seems to be waning under the pressure of lower milk prices. Prices noted at the monthly sale in the region were holding steady at about \$1700-1800. Producers who have been offering heifers have reduced some prices into the \$1500 range and are not seeing much buying interest, even from Idaho. The corn crop in the region looks good and is ahead of schedule. Hay continues to be a problem for dairies in the region. Prices are firm and the quality is not what dairies are looking for. Many are deciding to wait for the third and fourth cuttings and hope for the best. Conditions have really heated up in UTAH and IDAHO. The milking herds are under considerable stress and milk is falling more rapidly. The triple digit temperatures are continuing for many days in a row and it is not cooling off much at night. That is the real problem in that there is no relief from one day to the next. Fat and protein tests are falling much more rapidly as the cows only want to take in water and not feed. Hay supplies for the dairy herds are not as bad in this region as they are in many other regions. Quality is better, but it is certainly more expensive than last year. Heifer prices seem to be weakening a bit in the region. At the two major sales, average prices are between \$1750-1850. These prices have declined about \$100 in the last few weeks.

NDM, BUTTERMILK & WHOLE MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

NONFAT DRY MILK - CENTRAL AND EAST

CENTRAL: Prices are mixed on a steady to firm market. Although some prices shifted lower in response to a lower reported price on the NASS series, plants marketing outside of program pricing schemes reported higher prices. Sales to the CCC at the support price of 80 cents are not reported from the Central region for the current week. Production is mostly steady. Whereas some locations indicated reduced milk intakes due to the impact of hot weather on the milk supply, others reported increased intakes due to unexpected shifts of milk volumes away from bottling facilities and into Class IV dryers. Increased production at some locations is being readily offset by increased demand. Some additional requests for supplies are being sought from producers in the coastal areas where supplies are also reportedly limited.

EAST: Prices are mixed on a firm market. Reductions in the milk supply due to the recent hot and humid weather and typical seasonality are impacting milk intakes into Class IV facilities. As a result, supplies are reported as tight with some traders reporting that their contractual shipments are being shorted or delayed. Producers suspect that orders for August may also be shorted or delayed. Some buyers are seeking additional loads from West coast suppliers to supplant their needs. With East coast handlers primarily using the NASS pricing series as a benchmark for their sales, prices are noted slightly lower in tandem with the lower NASS price reported. High heat NDM sales are mostly contractual for the good interest.

F.O.B. CENTRAL/EAST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUMHEAT: .8400 - .8950 MOSTLY: .8425 - .8900
 HIGHHEAT: .8725 - .9600

NONFAT DRY MILK - WEST

Nonfat dry milk prices are steady to slightly lower. The market tone appears to be fully steady. Supplies have tightened in recent weeks, following decent buying interest around the first of the month. There is demand appearing from cheese producers locally and from other regions. There continues to be offerings to the support program this week, but totals are slowing. Last week, 513,429 pounds were offered from Western producers. Export demand is fair currently, but the U.S. is expected to remain a sourcing country for world needs. Production has slowed as milk intakes have eased. Many plants continue to operate on extended schedules as other plants are down for scheduled maintenance. The high heat NDM market is balanced. Prices are slightly lower within the range, but mainly reflect declines in program pricing. Seasonal account interest has slowed. Drying is mainly on a "to order" basis. Stocks are light.

F.O.B. WEST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUMHEAT: .8000 - .8350 MOSTLY: .8100 - .8300
 HIGHHEAT: .8375 - .8750

CALIFORNIA MANUFACTURING PLANTS - NDM

WEEK ENDING	PRICE	TOTAL SALES	SALES TO CCC
July 14	\$.8143	11,536,939	1,622,113
July 7	\$.8168	11,956,144	2,546,916

Prices are weighted averages for Extra Grade and Grade A Nonfat Dry Milk, f.o.b. California manufacturing plants. Prices for both periods were influenced by effects of long-term contract sales. Total sales (pounds) include sales to CCC. Compiled by Dairy Marketing Branch, California Department of Food and Agriculture.

DRY BUTTERMILK - CENTRAL

Prices are higher on a firm market. A strong impetus to clear heavy stocks during the month prior has resulted in severely depleted stocks in the current month. As a result, buyers that regularly use dry buttermilk are searching for additional supplies in the coastal areas to meet their needs. Offering prices are reported above the range for the limited interest, especially when prices delivered from the West are competitive. Production is steady with anticipated declines as milk production seasonally wanes in response to hot and humid temperatures.

F.O.B. CENTRAL: .8500 - .9200

DRY BUTTERMILK - NORTHEAST AND SOUTHEAST

Prices are higher and nominal. The market tone remains firm. Reduced milk supplies are limiting milk intakes at some Class IV facilities. As a result, production of dry buttermilk is reduced and stocks are reportedly "tight." Spot trade is light with most movement reported on a contractual basis.

F.O.B. NORTHEAST: .8100 - .8700
 DELVDSOUTHEAST: .8300 - .8900

DRY BUTTERMILK - WEST

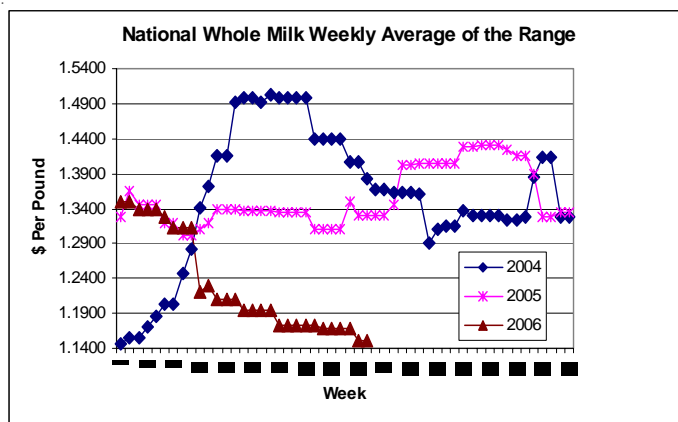
Buttermilk prices continue to trend higher. The market tone is firming towards the top end of the range. The move from the recent bottom of 60 cents was overdue according to several contacts. It took that pricing level to be able to export buttermilk and help clear stocks. Production is lighter as less butter is made. The influence of less fat in incoming milk and the better call for fat from ice cream producers are factors. Ice cream makers are also pulling both condensed and dry buttermilk. Stocks of buttermilk have moved lower and are in balance to tight. Producers find their current stock positions improved.

F.O.B. WEST: .7000 - .7900 MOSTLY: .7100 - .7800

DRY WHOLE MILK - NATIONAL

Pricing levels for dry whole milk are mostly steady. The market tone is best described as steady. Supply and demand are in good balance. Drying schedules are light to moderate with current production being used to fill standing orders and projected future needs. Drying times are often more available at locations where milk volumes are declining. Demand is light to fair. Some interest from candy makers has renewed.

F.O.B. PRODUCING PLANT: 1.1000 - 1.2000



WHEY, CASEIN & EVAPORATED MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

DRY WHEY - CENTRAL

Prices are higher on a steady to firm market. Supplies available via manufacturers and resellers are generally noted at a premium into domestic markets. Offers of whey into Mexico and Asia are noted at prices closer to the average for the fair interest. Production is steady to somewhat reduced in response to reduced milk intakes at some locations. Manufacturer stocks are reported as tight. Offerings of feed grade whey are limited. Feed demand is fairly good as buyers seek low cost alternatives to higher priced lactose and Extra Grade whey markets. Condensed whey remains available at some locations for the very light interest.

F.O.B. CENTRAL: .2750 - .2950 MOSTLY: .2850 - .2950
F.O.B. CENTRAL: ANIMAL FEED MILK REPLACER: .2600 - .2750

DRY WHEY - NORTHEAST AND SOUTHEAST

Whey prices are unchanged on a steady to firm market. With sales, in part, benchmarked on the Central region market, which has also remained unchanged, prices are fairly stable. Standard list prices are reported at most locations. Trade activity is mostly contractual with minimal supply availability for spot trade. Production is mostly steady to somewhat reduced in response to reduced milk volumes and production difficulties in the recent hot and humid temperatures.

F.O.B. NORTHEAST: EXTRA GRADE AND GRADE A: .2750 - .3000
DELVD SOUTHEAST: .2900 - .3300

DRY WHEY - WEST

The Western whey price range narrowed a bit this week while the mostly average was fractionally higher. Most manufacturers are stating that they are in close balance between supply and demand and see the market beginning to firm. A few producers are noting that they have some stocks on hand, but that there might be some defects in the quality of the inventories. Some plants continue to fill contracts put together at the beginning of the summer when the goal was just to clear offerings. The general market undertone seems to be steady with a slight firming trend noted.

NONHYGROSCOPIC: .2750 - .3100 MOSTLY: .2850 - .3000

WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST

Prices are mixed on a steady to firm market. With increased movement of 80% WPC into export markets, supplies of 80% WPC are more in balance and less likely to compete with 34% WPC. The CCC recently invited competitive offers on 2,047,764 pounds of NDM for restricted use. Producers of 34% WPC indicate that the quantity is not significant enough to impact 34% WPC price or movement. However, some feed buyers are holding off on additional purchases of 34% WPC until notification of whether their NDM offers are successful on Friday, 7/21/06. Offers of Canadian 34% WPC are noted into the U.S. at competitive prices. Domestic offers from resellers and manufacturers are noted both above and below the range for the fair interest. Condensed WPC is readily available for the light interest of dry product manufacturers and feed users.

F.O.B. EXTRA GRADE 34% PROTEIN: .5650 - .6150 MOSTLY: .5800 - .5900

LACTOSE - CENTRAL AND WEST

Prices are unchanged on a firm market. Supplies remain tight. Inquiries for fourth quarter contracts persist. Buyers have generally acclimated to the current price levels yet hold reservations with respect to future trends. At these prices, buyers cannot afford nor can they buy enough lactose to build inventories. Partial load sales are noted at prices above the range. Edible demand for lactose is strong with some users being shorted on contractual shipments. Feed grade lactose continues to be offered within the mostly range. Feed buyers continue to direct their purchases toward the more price attractive substitutes of whey and permeate. Lactose production is mostly steady.

Including spot sales and up to 3 month contracts. Mesh size 30 - 100.

F.O.B. EDIBLE: .2775 - .3900 MOSTLY: .3100 - .3500

CASEIN - NATIONAL

Casein markets and prices are little changed from recent weeks. Domestic buyers are stating that they are basically able to secure needed volumes of casein for needs, although acid volumes are tighter. Rennet demand is slow as need is not at levels when natural cheese prices are higher. Many suppliers indicate that stocks should remain at levels of current offerings for the balance of the year. Oceania suppliers indicate that the new milk production season is soon to resume, thus declining inventories will again be replenished.

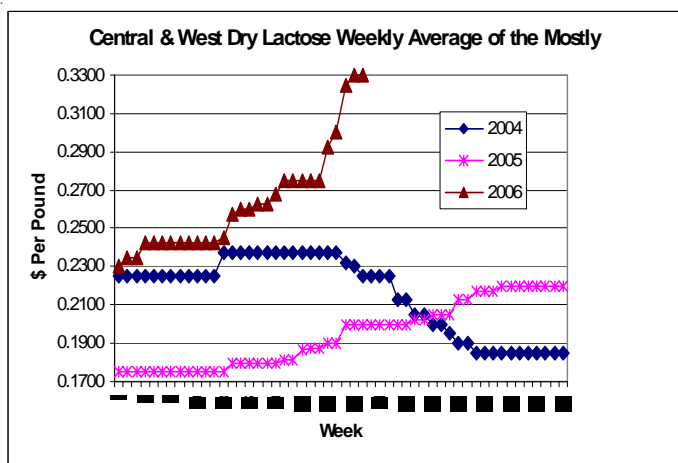
SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE F.O.B., U.S. WAREHOUSE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

RENNET: 3.0000 - 3.1000
ACID: 3.0500 - 3.1500

EVAPORATED MILK - NATIONAL

Prices continue unchanged on a steady market. As Class IV price levels trend fairly constant from month to month, evaporated milk prices are also remaining constant. Production is seasonally steady and spot inquiry is light.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES \$21.20 - 36.00
Excluding promotional and other sales allowances. Included new price announcements.



CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)

	FOR THE WEEK OF JULY 17 - 21, 2006			CUMULATIVE TOTALS		UNCOMMITTED INVENTORIES	
	TOTAL PURCHASES	CONTRACT ADJUSTMENTS	ADJUSTED PURCHASES	SINCE 10/01/05	SAME PERIOD LAST YEAR	WEEK ENDING 07/14/06	SAME PERIOD LAST YEAR
BUTTER							
Bulk	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Packaged	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-
CHEESE							
Block	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Barrel	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Process	-0-	-0-	-0-	198,000	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	198,000	-0-	-0-	-0-
NONFAT DRY MILK							
Nonfortified	138,802	-0-	138,802	66,153,014	31,817,269	-0-	-0-
Fortified	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	138,802	-0-	138,802	66,153,014	31,817,269	-0-	-0-

MILK EQUIVALENT, FAT SOLIDS BASIS, OF ADJUSTED PURCHASES (MILLION POUNDS)

	MILKFAT* BASIS	SKIM** SOLIDS		MILKFAT* BASIS	SKIM** SOLIDS
WEEK OF JULY 17 - 21, 2006 =	0.0	1.6	COMPARABLE PERIOD IN 2005 =	0.0	0.0
CUMULATIVE SINCE OCTOBER 1, 2005 =	16.4	772.0	CUMULATIVE SAME PERIOD LAST YEAR =	7.0	370.4
CUMULATIVE JANUARY 1 - JULY 21, 2006 =	16.4	772.0	COMPARABLE CALENDAR YEAR 2005 =	0.0	0.0

* Factors used for Fat Solids Basis - Butter times 21.80; Cheese times 9.23; and Nonfat Dry Milk times 0.22

**Factors used for Skim Solids Basis - Butter times 0.12; Cheese times 9.90; and Nonfat Dry Milk times 11.64

CCC ADJUSTED PURCHASES FOR THE WEEK OF JULY 17 - 21, 2006 (POUNDS)

	BUTTER			CHEESE			NONFAT DRY MILK	
REGION	BULK	PACKAGED	UNSALTED	BLOCK	BARREL	PROCESS	NONFORTIFIED	FORTIFIED
CENTRAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
WEST	-0-	-0-	-0-	-0-	-0-	-0-	138,802	-0-
EAST	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-

CCC ADJUSTED PURCHASES SINCE 10/1/05 AND SAME PERIOD LAST YEAR (POUNDS) AND MILK EQUIVALENT AS A PERCENT OF TOTAL

	BUTTER		CHEESE		NONFAT DRY MILK		MILK EQUIVALENT (%)	
REGION	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
CENTRAL	-0-	-0-	198,000	-0-	2,056,719	1,331,567	13.9	4.2
WEST	-0-	-0-	-0-	-0-	61,691,819	29,415,099	82.9	92.4
EAST	-0-	-0-	-0-	-0-	2,404,476	1,070,603	3.2	3.4
TOTAL	-0-	-0-	198,000	-0-	66,153,014	31,817,269	100.0	100.0

SUPPORT PURCHASE PRICES FOR DAIRY PRODUCTS PRODUCED ON OR AFTER NOVEMBER 15, 2002

MANUFACTURING MILK Average Test 3.67% - \$9.90 per cwt.

BUTTER Bulk \$1.0500 per pound; 1# Prints \$1.0850

CHEESE 40 & 60# Blocks \$1.1314 per pound; 500# Barrels \$1.1014; Process American 5# \$1.1889; Process Am. 2# \$1.2289

NONFAT DRY MILK Nonfortified \$.8000 per pound; Fortified \$.8100; Instant \$0.9625

U.S. Dairy & Total Cow Slaughter under Federal Inspection, by Regions, for Week Ending 07/01/06 & Comparable Week 2005

Regions* (000 HEAD)	1	2	3	4	5	6	7	8	9	10	U.S. TOTAL		% DAIRY OF ALL	
											WEEK SINCE JAN 1	WEEK SINCE JAN 1		
2006-Dairy	N.A.	0.6	4.9	2.3	15.0	2.0	0.4	N.A.	13.1	1.3	40.8	1,145.7	41.8	44.7
2005-Dairy	N.A.	0.6	5.7	1.9	11.9	2.3	0.5	N.A.	10.8	2.2	36.9	1,153.6	42.5	47.3
2006-All cows	N.A.	0.6	6.3	11.4	27.6	17.4	12.8	N.A.	16.0	2.1	97.5	2,565.2		
2005-All cows	N.A.	0.7	7.1	10.9	23.1	15.0	10.6	N.A.	12.9	4.0	86.9	2,439.9		

SOURCE: The slaughter data are gathered and tabulated in a cooperative effort by the Agricultural Marketing Service, The Food Safety and Inspection Service, and the National Agricultural Statistics Service, all of USDA.

CLASS III MILK PRICES, (3.5% BF)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2002	11.87	11.63	10.65	10.85	10.82	10.09	9.33	9.54	9.92	10.72	9.84	9.74
2003	9.78	9.66	9.11	9.41	9.71	9.75	11.78	13.80	14.30	14.39	13.47	11.87
2004	11.61	11.89	14.49	19.66	20.58	17.68	14.85	14.04	14.72	14.16	14.89	16.14
2005	14.14	14.70	14.08	14.61	13.77	13.92	14.35	13.60	14.30	14.35	13.35	13.37

FEDERAL MILK ORDER CLASS PRICES FOR 2006 (3.5% BF)

CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
I 1/	13.38	13.38	12.49	11.22	10.97	10.75	11.34	10.97				
II	13.25	12.62	11.69	11.37	11.13	11.00						
III	13.39	12.20	11.11	10.93	10.83	11.29						
IV	12.20	11.10	10.68	10.36	10.33	10.22						

1/ Specific order differentials to be added to this base price are located at www.ams.usda.gov/dyfm05/mib/cls_prod_cmp_pr.htm

INTERNATIONAL DAIRY MARKET NEWS

Information gathered July 10 - July 21, 2006

Prices are U.S. \$/MT, F.O.B. port. Information gathered for this report is from trades, offers to sell, and secondary data. This bi-weekly report may not always contain the same products and/or regions. Future reports may be included or withdrawn depending on availability of information. MT = metric ton = 2,204.6 pounds.

WESTERN AND EASTERN EUROPE

WESTERN OVERVIEW: Milk production in Europe is lower. This is typically the direction output is in at this time of the year, although at this point, production is declining quite rapidly as hot temperatures are being reported throughout Europe. Rainfall in Europe has been spotty, thus some areas are nearing or at drought conditions. Lack of moisture is limiting pasture growth, also impacting milk production patterns. Dry conditions have farmers questioning feed supplies and availability for upcoming winter needs. International buying interest for manufactured dairy products remains slow. Traders and handlers indicate that powder volumes are basically in balance for domestic needs, with minimal amounts available for potential international buyer interest. Some traders feel that European demand might even surpass European supplies, thus imports may be needed to fill all needs. Butter stocks continue to run well ahead of last year at this time, with production edging lower as milk and cream volumes decline. At the July 13th EU Dairy Management Committee meeting, minimal changes to refunds were reported. Butter continues to be offered to intervention, but accepted volumes are declining. In the third and most recent round of tendering, 1,520 MT of butter were accepted out of offerings totaling 2,330 MT at about 89% of the current intervention level. Since March 1, 54,620 MT of butter have cleared to intervention at a fixed price with another 6,235 MT of butter clearing through the tendering system. The next Committee meeting is scheduled for July 27th.

BUTTER/BUTTEROIL: European butter markets remain weak as butter production declines seasonally. Hot temperatures and humid conditions are accelerating milk production declines and reports indicate that butterfat levels are also declining. Butter demand continues to center around domestic needs with minimal international sales being reported. Stocks of butter continue to run heavier than last year at this time. Some surplus butter continues to clear to intervention under the tendering system, but these offerings are anticipated to slow. In the third and most recent round of tendering, 1,520 MT of butter were accepted into the program at about 89% of the current intervention level. Since the tendering system has been in place (early June) 6,235 MT have cleared to the program. Late last week, the European Union immediately suspended imports of New Zealand butter following the European Court of Justice's ruling on parts of the regulations governing these imports to be invalid. Although midweek this week, the EU issued a decision amendment that will allow butter imports to continue, under certain guidelines, until October pending the resolution of legal questions.

82% BUTTERFAT: 1,700 - 1,925
99% BUTTERFAT: 2,200 - 2,300

SKIM MILK POWDER (SMP): Skim milk powder markets are firm with prices generally higher. Traders and handlers anticipate that prices will remain firm and will probably increase into the fall. Powder is available, but the majority of the current supply is clearing to the domestic feed industry. International sales are minimal as prices are often too high for potential buyers and traders have no subsidy to work with. Some European traders and handlers feel that European supplies may be limited this fall to the point that imports may be needed.

1.25% BUTTERFAT: 2,350 - 2,500

WHOLE MILK POWDER (WMP): Whole milk powder markets are generally steady although prices are slightly lower. Stocks of powder are reported to be readily available for domestic and international buyer interest. Traders and handlers state that sales activity is basically centered around an internal or domestic need with international sales slow.

26% BUTTERFAT: 2,150 - 2,250

SWEET WHEY POWDER: Whey powder markets are firm as prices hold steady to generally higher. Traders and handlers state that export sales are minimal as European prices are higher than potential buyers are willing to pay. Whey volumes are available, although they are being absorbed by internal or domestic buyers. Cheese production is lower as milk volumes decline, thus are whey supplies.

NONHYGROSCOPIC: 800 - 900

EASTERN OVERVIEW: Milk production in Eastern Europe is also being impacted by hot temperatures and humid conditions. Thus far this season, milk output has not attained levels of last season, thus accelerated declines at this time will only further limit manufactured dairy product supplies. Traders and handlers state that stocks are lower than usual for this time of the summer which has some producers concerned. At this point, international buyer interest remains light. Some traders feel that they may not have sufficient volumes to fill potential buyer interest.

OCEANIA

OCEANIA OVERVIEW: Milk production trends in Oceania are typical for this time of the winter season. Production is at seasonal low levels. In New Zealand, winter moisture levels appear to be higher than recent years. Rain on the North Island and snow on the South Island is causing some dairy producers to feed out hay earlier than usual. Although this is occurring, most producers are not overly concerned about running out of feed before pastures are reestablished for the new production season. Some feed shuffling among producers might occur, but for the most part, forage crops should be sufficient to carry producers through the wet and early growing season. The new milk production season will be resuming within the next few weeks. Producers and handlers are not expressing production projections for the new season, although most remain optimistic about the 2006 - 2007 year. In Australia, good levels of moisture have fallen in recent days which will help early pasture growth. The new milk production season is still six to eight weeks away, but as in New Zealand, Australians are hoping that they will attain the status quo of the 2005-2006 year and hopefully increase to levels of previous years. With this being the off season for milk production, orders are being filled from inventoried stock. Traders and handlers continue to indicate that stocks will be in close balance for needs. Some Oceania traders are wondering what impact the recent EU suspension of quota imported New Zealand butter might have on near term shipments and future sales. With the restriction just arising, traders and handlers indicate that it is too early to speculate on how this will all play out. Outside of this butter situation, Oceania supplies appear to be in close balance with needs and most traders continue to indicate that there will basically be no surplus stocks available for early season spot buyers.

BUTTER: Oceania butter markets are generally steady at unchanged prices. Stocks remain in balance with projected needs. Midweek, New Zealand's government welcomed a European Union decision amendment that will allow butter imports to continue until October pending the resolution of legal questions. The Commission has agreed to allow all New Zealand imports already on the way to the EU or those which had an export license before the ban was introduced. On Friday July 14, the Commission suspended all butter imports into the EU from New Zealand following a European Court of Justices' ruling that parts of the regulations governing the imports were invalid. Exports to Europe are about 28% of New Zealand's annual butter output.

82% BUTTERFAT: 1,600 - 1,800

CHEDDAR CHEESE: Oceania cheese production is at seasonal low level, although milk production will soon be increasing in the region and the 2006 - 2007 cheese production year will be underway. Cheese producers are indicating that 2005 - 2006 stock levels are declining as orders are being filled from inventoried stock for ongoing customer needs. Sales negotiations for the new season continue and reports indicate that buyer interest remains steady to increased.

39% MAXIMUM MOISTURE: 2,550 - 2,800

SKIM MILK POWDER (SMP): Oceania skim milk powder markets are generally steady at unchanged prices, although some traders report a firm undertone. Market firmness is being attributed to the firm price situation in Europe. Traders and handlers state that a significant portion of upcoming production, especially the first half, is already committed to regular and ongoing customers. Many traders indicate that prices will remain firm with little downside to the market being reported at this time.

1.25% BUTTERFAT: 2,000 - 2,150

WHOLE MILK POWDER (WMP): Oceania whole milk powder markets are little changed from recent weeks. Prices are unchanged. Traders and handlers continue to fill orders from inventoried stock and indicate that supplies should be sufficient for the balance of the season before the start of the new milk production year. Traders state that sales negotiations for the upcoming production season continue and that a significant portion of first half production is contracted forward. The 2005 - 2006 year end carryover stocks are anticipated to be minimal, thus no spot sales are expected to occur.

26% BUTTERFAT: 2,000 - 2,200

Exchange rates for selected foreign currencies: July 17, 2006

.8801 Canadian Dollar	.0214 Indian Rupee
.3245 Argentina Peso	.6214 New Zealand Dollar
.0911 Mexican Peso	.7476 Australian Dollar
.3101 Polish Zloty	.0085 Japanese Yen
	1.2523 Euro

To compare the value of 1 US Dollar to Mexican Pesos: (1/.0911)=
10.9769 Mexican Pesos. Source: "Wall Street Journal"

CHICAGO MERCANTILE EXCHANGE FUTURESSelected settling prices, (open interest), and volume 1/

Month	07/05	07/06	07/07	07/10	07/11	07/12	07/13	07/14	07/17	07/18
CME - CLASS III MILK FUTURES (Pit-Traded)										
JUL 06	11.18 (3506) 26	11.10 (3495) 100	11.05 (3507) 37	11.00 (3517) 26	11.00 (3494) 6	11.01 (3502) 50	11.01 (3556) 60	10.98 (3546) 155	10.99 (3519) 58	10.95 (3510) 69
AUG 06	11.69 (4118) 59	11.55 (4115) 162	11.45 (4123) 150	11.39 (4113) 137	11.33 (4122) 85	11.37 (4125) 117	11.31 (4128) 188	11.26 (4228) 200	11.28 (4247) 97	11.30 (4278) 40
SEP 06	12.30 (4291) 54	12.16 (4308) 101	12.08 (4346) 174	11.99 (4418) 217	11.91 (4499) 204	11.94 (4671) 299	11.92 (4748) 266	11.83 (4753) 163	11.83 (4832) 137	11.92 (4874) 117
OCT 06	12.35 (3809) 4	12.23 (3800) 14	12.20 (3922) 139	12.16 (3945) 33	12.13 (3973) 43	12.16 (4012) 79	12.12 (4036) 64	12.08 (4075) 53	12.13 (4093) 18	12.25 (4116) 80
NOV 06	12.30 (3460) 8	12.20 (3466) 18	12.18 (3453) 42	12.13 (3466) 34	12.11 (3480) 37	12.15 (3482) 16	12.12 (3484) 24	12.07 (3486) 46	12.10 (3487) 9	12.18 (3498) 66
DEC 06	12.20 (2953) 24	12.15 (2954) 6	12.11 (2957) 10	12.02 (2953) 23	12.05 (2978) 43	12.05 (2983) 17	12.05 (2993) 29	12.05 (3015) 53	12.05 (3020) 7	12.13 (3048) 54
JAN 07	12.30 (1134) 19	12.30 (1158) 19	12.30 (1156) 17	12.28 (1157) 7	12.25 (1167) 17	12.25 (1179) 20	12.25 (1185) 6	12.25 (1201) 17	12.25 (1201) 2	12.33 (1203) 1
FEB 07	12.18 (955) 20	12.18 (965) 13	12.18 (967) 19	12.18 (970) 7	12.15 (971) 9	12.15 (971) 5	12.16 (979) 14	12.15 (984) 12	12.15 (986) 2	12.17 (986) 0
MAR 07	12.20 (985) 15	12.20 (1005) 18	12.20 (1014) 13	12.20 (1019) 6	12.18 (1022) 9	12.17 (1038) 14	12.17 (1038) 6	12.17 (1044) 6	12.20 (1047) 6	12.20 (1047) 1
APR 07	12.42 (705) 18	12.38 (723) 14	12.40 (727) 16	12.40 (729) 10	12.35 (733) 4	12.33 (736) 13	12.33 (742) 15	12.33 (748) 6	12.34 (749) 3	12.34 (749) 0
MAY 07	12.41 (673) 15	12.40 (694) 19	12.42 (698) 13	12.42 (703) 6	12.40 (706) 4	12.40 (711) 19	12.40 (715) 13	12.40 (721) 7	12.40 (722) 4	12.49 (723) 1
JUN 07	12.60 (621) 19	12.60 (636) 13	12.60 (640) 12	12.60 (645) 6	12.56 (649) 4	12.54 (660) 12	12.56 (666) 12	12.56 (673) 7	12.56 (674) 4	12.60 (674) 1
JUL 07	12.91 (487) 18	12.95 (500) 14	12.95 (506) 18	12.95 (502) 5	12.95 (505) 3	12.95 (505) 5	13.04 (505) 8	13.04 (511) 17	13.04 (512) 1	13.04 (517) 5
AUG 07	13.06 (423) 19	13.10 (437) 18	13.10 (443) 23	13.10 (441) 5	13.10 (444) 3	13.10 (444) 5	13.10 (444) 0	13.10 (450) 15	13.10 (450) 1	13.10 (455) 5
SEP 07	13.18 (392) 19	13.25 (415) 27	13.25 (421) 16	13.25 (424) 4	13.25 (427) 3	13.25 (428) 7	13.25 (428) 0	13.25 (436) 14	13.25 (437) 2	13.25 (442) 5
CME - CLASS IV MILK FUTURES (Pit-Traded)										
JUL 06	10.55 (11) 0	10.55 (11) 0	10.55 (11) 0	10.55 (11) 0	10.55 (11) 0	10.55 (11) 0	10.55 (11) 0	10.50 (11) 0	10.50 (11) 0	10.50 (11) 0
AUG 06	10.98 (6) 0	10.98 (6) 0	10.98 (6) 0	10.98 (6) 0	10.98 (6) 0	10.98 (6) 0	10.98 (6) 0	10.98 (6) 0	10.98 (6) 0	10.98 (6) 0
SEP 06	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0
CME – PRODUCT SETTLED BUTTER FUTURES (Pit-Traded)										
JUL 06	115.25 (220) 13	115.50 (211) 12	113.75 (218) 3	113.25 (213) 5	113.25 (106) 5	113.25 (91) 0	113.25 (86) 0	112.50 (86) 1	112.50 (75) 0	113.00 (75) 0
SEP 06	118.50 (425) 0	118.25 (425) 2	118.25 (425) 0	117.00 (423) 2	117.00 (425) 5	117.00 (425) 0	116.25 (425) 1	116.00 (424) 1	116.00 (418) 8	116.00 (414) 6
OCT 06	120.00 (247) 0	120.00 (248) 1	120.00 (247) 3	119.00 (248) 1	118.75 (248) 0	118.75 (248) 0	118.25 (248) 0	118.00 (248) 0	118.00 (248) 0	118.00 (248) 0
CME – CASH SETTLED BUTTER FUTURES (Electronic-Traded)										
JUL 06	116.00 (813) 2	115.60 (811) 5	114.00 (797) 16	113.25 (779) 18	113.25 (779) 0	113.75 (773) 8	113.53 (773) 3	113.53 (773) 0	113.50 (773) 4	113.22 (762) 31
AUG 06	117.75 (919) 0	118.00 (907) 18	116.50 (899) 12	116.00 (895) 13	115.75 (895) 8	115.75 (890) 12	115.50 (892) 11	115.50 (892) 0	115.53 (892) 1	115.35 (900) 20
SEP 06	122.25 (1010) 0	122.25 (1009) 12	122.00 (1011) 14	118.50 (1020) 14	117.75 (1028) 14	117.25 (1028) 4	117.25 (1038) 23	117.25 (1038) 1	118.00 (1039) 5	118.00 (1042) 9

1/ At the CME open interest for milk -- 200,000 pounds per contract. For more detailed information, you may call our automated voice system at 608-250-3208.

THE DAIRY OUTLOOK

Milk Production Continues To Run Ahead of Demand, Prices Are Lower

Summary - Year-to-date disappearance for most dairy products is ahead of that for 2005. However, climbing production is resulting in higher stock levels and much lower prices. Lower milk and dairy product prices will remain until production slackens to meet demand. Slower growth in production is not expected until late 2006.

The July estimate for 2006 milk production was raised slightly to 182.1 billion pounds. The change was a result of a bump up in both cow numbers and output per cow to 9.14 million head and 5,140 pounds, respectively, for the second quarter of this year. There was no change in USDA projections for the balance of 2006 and no change in 2007 forecasts. While the monthly culling rate in 2006 has generally lagged 2004 and 2005, the rate inched ahead in May, suggesting that lower prices may be affecting production decisions. A clearer indication of producer decisions on milk cow replacement for the balance of 2006 will become available later in July with the *Cattle* report.

Cumulative production of major manufactured dairy products through May is ahead of year-earlier levels: all cheese 2.8 percent, butter 13.1 percent, nonfat dry milk (NDM) 16.1 percent, and dry whey 7.3 percent. With the exception of fat-reduced milk products, cumulative sales through May of fluid products is even or lags 2005 sales levels. The June *Cold Storage* report placed butter stocks 29 percent above year-earlier levels. Butter stocks have been expanding at a near record pace on record year-to-date (through May) production. However, butter disappearance has exceeded year-earlier levels by 11 percent. Cheese stocks are only 2 percent above a year earlier. April-June prices for both products are well below those for the corresponding period in 2005. The higher-than-average stock in cheese is not as severe as that with butter. As stocks of American style cheese were about equal to last year, cheese prices could stage a modest recovery in the second half of 2006 to average \$1.21-\$1.25 per pound. Butter prices are unlikely to rebound from their current lows, and the 2006 price should average \$1.15-\$1.22 per pound for the year. The season average projected price for butter reflects a comparatively strong January-March price of \$1.25 per pound. Butter prices for the remainder of 2006 are unlikely to recover much from the April-June \$1.15 per pound low.

NDM prices are expected to average 84-87 cents per pound in 2006. Despite attractive prices and healthy foreign demand, buyers appear to have immediate needs met. Dry whey is the only major product bucking the trend. Prices for 2006 are expected to average 29-32 cents per pound, which represents a sizeable increase, from 28 cents per pound in 2005. The projected average price for Class III milk is \$11.40-\$11.70 per cwt., up slightly from June's projection. However, the Class IV price is expected to average \$10.45-\$10.85 per cwt., down from June's estimate. The all milk price for 2006 is expected to average \$12.50-\$12.80 per cwt.

SOURCE: "Livestock, Dairy, and Poultry Outlook", LDP-M-145, July 18, 2006, Economic Research Service, USDA. For more information, contact Roger Hoskin, (202) 694-5148.

JUNE MILK PRODUCTION

Milk production in the 23 major states during June totaled 14 billion pounds, up 1.9 percent from June 2005. May revised production, at 14.7 billion pounds, was up 2.7 percent from May 2005. The May revision represented a decrease of 14 million pounds or 0.1 percent from last month's preliminary production estimate. Production per cow in the 23 States averaged 1,695 pounds for June, 5 pounds above June 2005. The number of milk cows on farms in the 23 States was 8.27 million head, 128,000 head more than June 2005, and 9,000 head more than May 2006. Milk production in the U.S. during the April-June quarter totaled 46.9 billion pounds, up 2.3 percent from the April-June quarter last year. The average number of milk cows in the U.S. during the quarter was 9.13 million head, 93,000 head more than the same period last year.

STATE	MILK COWS ^{1/ 2/}				MILK PRODUCTION ^{1/ 3/}			
	JUNE		APRIL-JUNE		JUNE		APRIL-JUNE	
	2005	2006	2005	2006	2006	% CHANGE FROM 2005	2006	% CHANGE FROM 2005
	THOUSANDS				MILLION LBS.	PERCENT	MILLION LBS.	PERCENT
AL	--	--	16	14	--	--	57	-9.5
AK	--	--	1.2	0.8	--	--	2.5	-34.2
AZ	162	172	163	172	338	7.0	1,078	8.5
AR	--	--	23	21	--	--	74	-7.5
CA	1,753	1,783	1,750	1,784	3,200	0.6	9,894	2.4
CO	105	111	104	109	218	9.0	642	7.9
CT	--	--	20	19.5	--	--	95	-5.9
DE	--	--	7.5	7.0	--	--	30.8	-12.0
FL	137	132	138	133	182	-7.6	595	-5.9
GA	--	--	82	77	--	--	383	0.3
HI	--	--	5.4	4.4	--	--	14.8	-22.1
ID	451	486	446	483	923	7.7	2,746	8.3
IL	104	103	104	103	164	-1.2	508	---
IN	156	166	157	166	277	3.4	851	2.5
IA	193	200	193	200	337	1.2	1,048	1.7
KS	112	113	112	113	198	2.1	612	3.4
KY	107	98	107	98	110	-6.8	352	-4.6
LA	--	--	36	32	--	--	112	-9.7
ME	--	--	33	32	--	--	147	-5.2
MD	--	--	72	70	--	--	289	-3.7
MA	--	--	17	16	--	--	73	-3.9
MI	313	320	312	319	589	2.6	1,786	2.6
MN	455	450	455	450	698	-0.4	2,138	0.1
MS	--	--	26	23	--	--	93	-14.7
MO	118	116	119	116	153	-6.1	498	-2.4
MT	--	--	19	19	--	--	98	3.2
NE	--	--	60	61	--	--	289	3.6
NV	--	--	25	27	--	--	140	2.2
NH	--	--	16	15	--	--	76	-3.8
NJ	--	--	12	12	--	--	48	-4.0
NM	325	360	324	355	675	12.9	2,036	14.4
NY	647	649	646	649	1,022	-0.7	3,130	0.4
NC	--	--	54	51	--	--	246	-7.5
ND	--	--	33	32	--	--	131	-3.0
OH	270	274	270	273	419	3.5	1,274	2.3
OK	--	--	75	75	--	--	317	-1.2
OR	121	121	121	121	188	-3.6	562	-4.9
PA	563	555	564	556	899	0.1	2,763	0.7
RI	--	--	1.0	1.1	--	--	4.9	-2.0
SC	--	--	18	17	--	--	77	-2.5
SD	--	--	81	81	--	--	382	3.0
TN	--	--	71	67	--	--	284	-5.3
TX	320	333	320	330	606	10.2	1,891	11.0
UT	--	--	89	85	--	--	411	-1.4
VT	143	141	144	142	218	-2.7	672	-2.3
VA	105	103	105	103	149	--	469	0.6
WA	243	237	242	237	465	-1.9	1,407	-2.3
WV	--	--	13	13	--	--	51	4.1
WI	1,235	1,243	1,234	1,242	1,983	1.0	5,987	1.9
WY	--	--	4.5	6.7	--	--	30.8	80.1
20 STATE TOTAL	8,138	8,266	--	--	14,011	1.9	--	--
U.S. ^{5/ 6/}	--	--	9,041	9,134	--	--	46,896	2.3

^{1/} Preliminary. ^{2/} Includes dry cows, excludes heifers not yet fresh. ^{3/} Excludes milk sucked by calves. ^{5/} Includes states for which individual monthly estimates are not available. ^{6/} Milk cows will not add due to rounding. **SOURCE:** "Milk Production," Da 1-1 (7-06), Agricultural Statistics Board, National Agricultural Statistics Service, USDA.

ERRATUM: THE COMMERCIAL DISAPPEARANCE REPORT THAT APPEARED IN REPORT 28 LAST WEEK CONTAINED ERRORS THAT ARE CORRECTED IN BOLD IN THE TABLE BELOW

COMMERCIAL DISAPPEARANCE: TOTAL MILK AND SELECTED DAIRY PRODUCTS—FEBRUARY-APRIL AND YEAR-TO-DATE 2005-2006 1/

Item	Feb.-Apr. 2005	Percent change 2/	Feb.-Apr. 2006	Percent change 2/	Jan.-Apr. 2005	Percent change 2/	Jan.-Apr. 2006	Percent change 2/
	Million Pounds							
MILK								
Production	43,782	2.0	45,763	4.5	58,401	1.9	61,097	4.6
Marketings	43,513	2.0	45,500	4.6	58,038	1.9	60,742	4.7
Beginning Commercial Stocks 3/	7,953	-19.6	9,054	13.8	7,154	-14.1	8,007	11.9
Imports 3/	1,207	-10.1	967	-19.9	1,715	-4.5	1,436	-16.3
Total Supply 4/	52,673	-2.3	55,521	5.4	66,907	-0.3	70,185	4.9
Ending Commercial Stocks 3/	10,517	4.2	11,694	11.2	10,517	4.2	11,694	11.2
Net Removals 3/	-26	-1,400.0	4	115.4	-31	131.6	4	112.9
Commercial Disappearance 4/	42,182	-3.7	43,823	3.9	56,421	-1.2	58,487	3.7
SELECTED PRODUCTS 5/								
Butter	275.0	-14.2	321.9	17.1	373.3	-6.7	419.2	12.3
American Cheese	896.4	-6.1	954.8	6.5	1,223.0	-2.5	1,293.0	5.7
Other Cheese	1,408.3	0.9	1,395.0	-0.9	1,864.7	1.8	1,872.4	0.4
Nonfat Dry Milk	322.7	-16.9	315.5	-2.2	443.1	-1.2	422.8	-4.6
Fluid Milk Products 6/	13,488.1	0.1	13,514.2	0.2	18,213.2	-0.5	18,267.8	0.3

1/ Commercial disappearance includes civilian and military purchases of milk and dairy products for domestic and foreign use, but excludes farm household use and USDA donations of dairy products. Disappearance is a residual figure and therefore can be affected by any inaccuracies in estimating milk production, on-farm use, stocks, and imports. 2/ From year earlier on a daily average basis. 3/ Milk-equivalent, milkfat basis. 4/ Totals may not add because of rounding. 5/ Commercial disappearance in product pounds. 6/ Sales. Estimate based on actual sales in Federal milk order marketing areas and California. These sales figures have not been adjusted for calendar composition. **SOURCE:** Economic Research Service, USDA. Fluid milk products - Agricultural Marketing Service, USDA.

FEDERAL MILK ORDER PRICE AND POOL SUMMARY, JUNE

HIGHLIGHTS. Handler reports of receipts and utilization under the Federal milk order system for June have been filed and tabulated. Combined totals for the 10 consolidated orders are being released. During June, about 10.0 billion pounds of milk were received from producers. This volume of milk is 5.2 percent higher than the June 2005 volume. In both June 2006 and June 2005, there were significant volumes of milk not pooled due to intraorder disadvantageous price relationships. About 3.6 billion pounds of producer milk were used in Class I products, 4.5 percent higher than the previous year. Calendar composition likely had a positive impact on milk used in Class I in 2006 as compared to 2005. The all-market average Class utilization percentages were; Class I = 36%, Class II = 13%, Class III = 39%, and Class IV = 12%. The weighted average statistical uniform price was \$12.08 per cwt., \$0.11 higher than last month and \$2.61 lower than last year.

PRICE AND POOL STATISTICS FOR FEDERAL MILK ORDER MARKETING AREAS FOR THE MONTH OF JUNE 2006										
FEDERAL MILK ORDER MARKETING AREA <u>1/</u>	ORDER NUMBER	RECEIPTS OF PRODUCER MILK		UTILIZATION OF PRODUCER MILK IN CLASS I			UTILIZATION OF PRODUCER MILK IN OTHER CLASSES			UNIFORM PRICE <u>2/</u>
		TOTAL	CHANGE FROM PREV. YEAR	TOTAL	CHANGE FROM PREV. YEAR	PERCENT	CLASS II	CLASS III	CLASS IV	
		MIL. LBS.	PERCENT	MIL. LBS.	PERCENT		PERCENT			\$ PER CWT.
Northeast (Boston)	001	1,901.3	-4.8	841.6	1.7	44	20	23	13	12.66
Appalachian (Charlotte)	005	544.1	-4.1	332.0	-1.0	61	17	7	15	12.84
Southeast (Atlanta)	007	678.4	4.4	382.2	5.9	56	11	25	8	12.90
Florida (Tampa)	006	251.1	-3.2	208.0	4.5	83	8	5	4	14.14
Midwest (Cleveland)	033	1,500.8	-7.9	505.8	4.6	34	17	42	7	11.74
Upper Midwest (Chicago)	030 <u>3/</u>	2,157.9	16.8	352.0	3.4	16	7	75	2	11.52
Central (Kansas City)	032 <u>3/</u>	1,021.3	17.0	341.6	4.2	34	16	37	13	11.62
Southwest (Dallas)	126	990.9	17.9	328.3	4.6	33	13	37	17	12.36
Arizona (Phoenix)	131 <u>4/</u>	305.9	22.6	106.9	40.5	35	8	34	23	11.67
Pacific Northwest (Seattle)	124	662.5	8.8	184.8	12.1	28	6	28	38	11.30
ALL MARKET AVERAGE OR TOTAL	<u>3/</u>	10,014.1	5.2	3,583.3	4.5	36	13	39	12	12.08

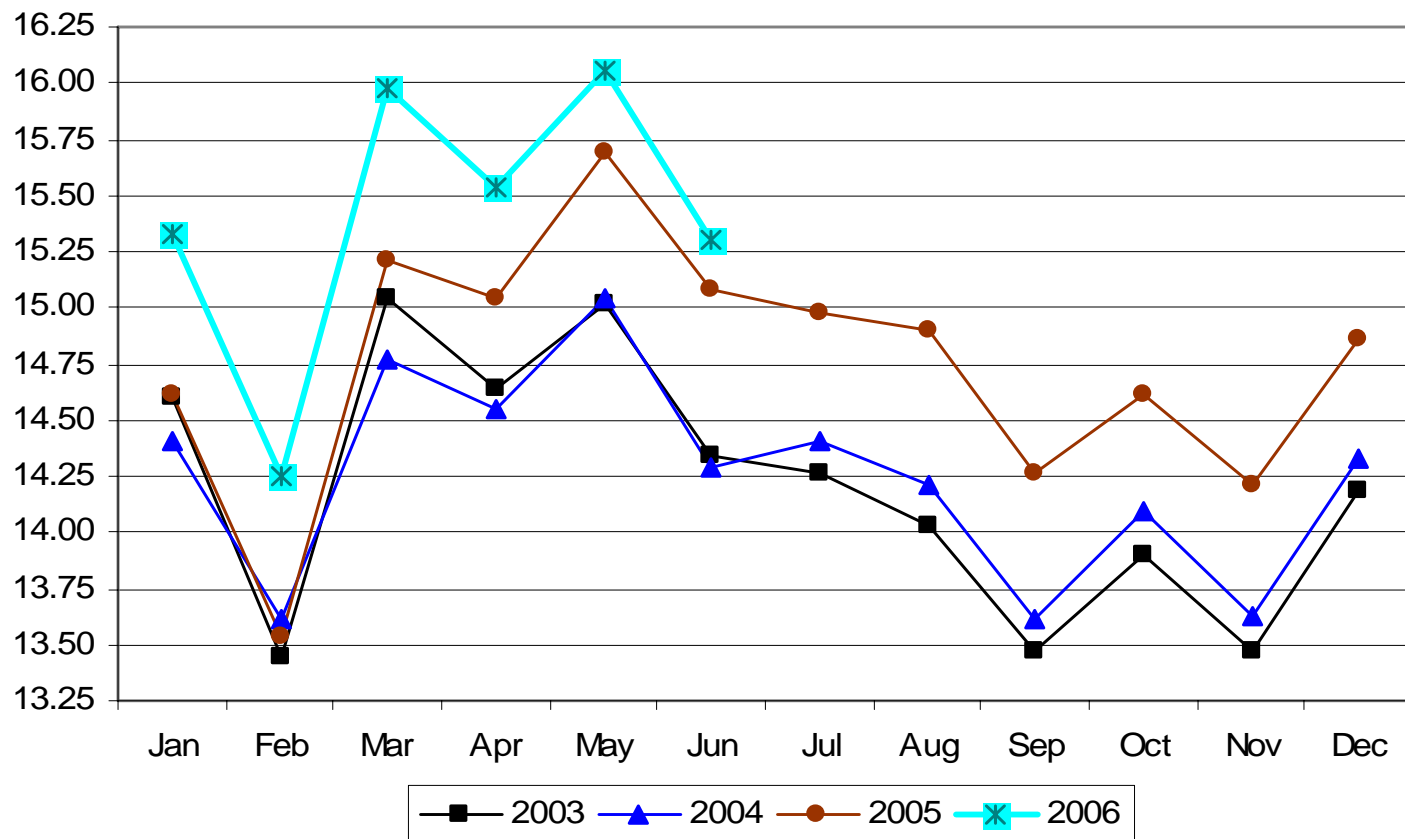
1/ Names in parentheses are the major city in the principal pricing point of the market.

2/ Statistical uniform price for component pricing orders (Class III price plus producer price differential). For other orders, uniform skim milk price times 0.965 plus uniform butterfat price times 3.5.

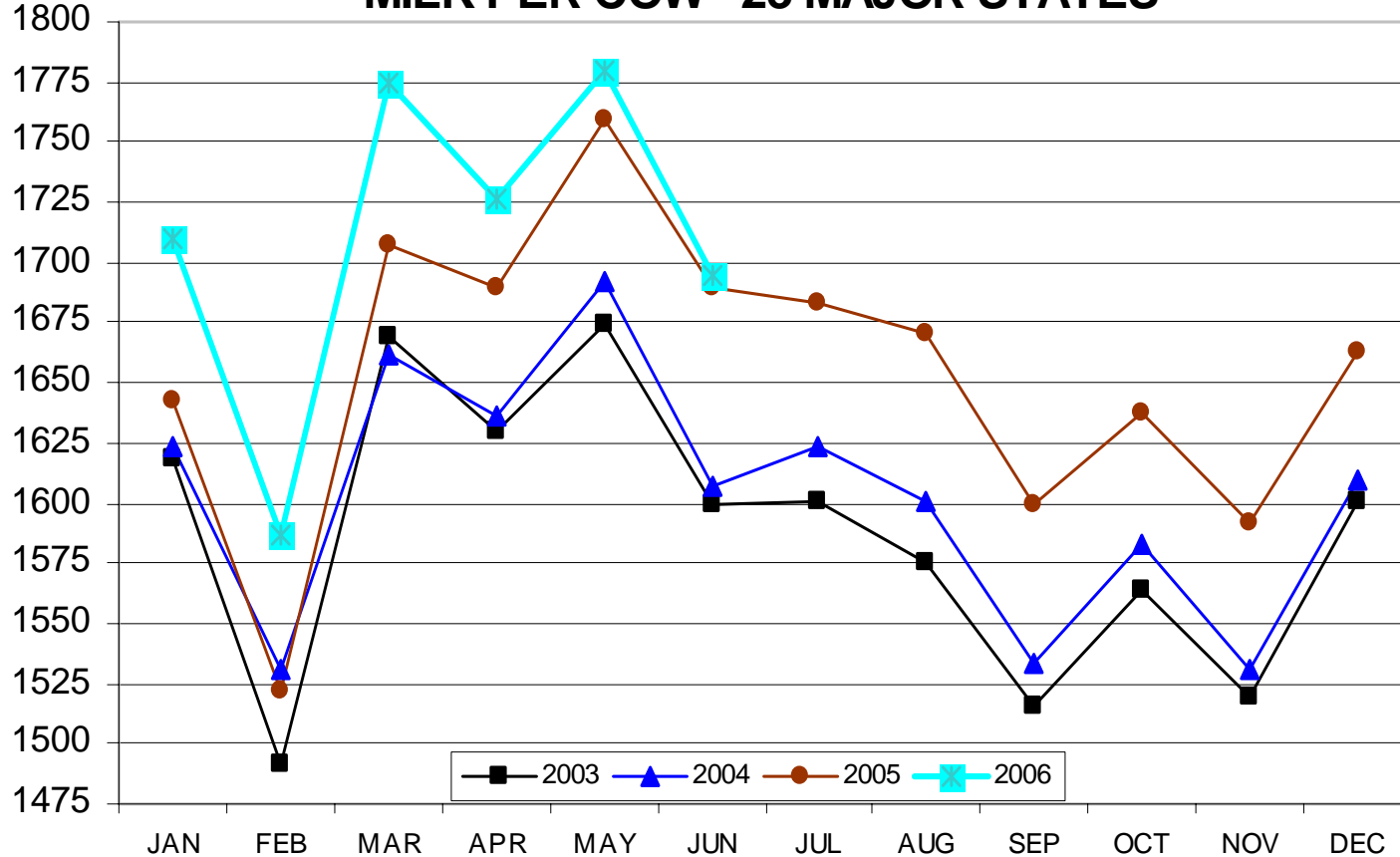
3/ Due to a disadvantage relationship between intraorder class prices and the location adjusted statistical uniform (blend) price in these markets, handlers elected not to pool an estimated 430 million pounds of milk, that normally would have been associated with these markets. In June 2005, the estimated not pooled volume of milk was 890 million pounds, occurring in Order Nos. 033, 030, and 032. After adjusting for these not-pooled volumes, the year to year percent change is +0.3%.

4/ Effective May 1, 2006, the name of the Federal order was changed. Clark County, Nevada, which includes Las Vegas, was removed from the marketing area.

Billion Pounds

Estimated U.S. Milk Production

Pounds

MILK PER COW - 23 MAJOR STATES

Graph USDA, DMN; Source USDA, NASS

